

VZCZCXR06419
PP RUEHDBU RUEHPW RUEHSL
DE RUEHLO #1911/01 2311629

ZNR UUUUU ZZH
P 191629Z AUG 09
FM AMEMBASSY LONDON
TO RUEHC/SECSTATE WASHDC PRIORITY 3193
INFO RUCNAFG/AFGHANISTAN COLLECTIVE PRIORITY
RUEHAD/AMEMBASSY ABU DHABI PRIORITY 0391
RUEHIL/AMEMBASSY ISLAMABAD PRIORITY 1011
RUEHRH/AMEMBASSY RIYADH PRIORITY 0723
RUEHLH/AMCONSUL LAHORE PRIORITY 0045
RUEHKP/AMCONSUL KARACHI PRIORITY 0086
RUCPDOC/USDOC WASHDC PRIORITY
RUEATRS/DEPT OF TREASURY WASHDC PRIORITY
RHEHNSC/NSC WASHDC PRIORITY

UNCLAS SECTION 01 OF 03 LONDON 001911

SIPDIS

E.O. 12958: N/A

TAGS: [ECON](#) [EFIN](#) [ETRD](#) [PK](#) [SA](#) [UK](#) [XC](#)

SUBJECT: EFFECT OF THE RECESSION ON UK REMITTANCES TO
PAKISTAN

REF: LONDON 01542

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¶1. (SBU) Summary. UK remittances to Pakistan have continued to increase in 2009, according to official data, but experts are skeptical that the trend will continue. Unlike remittances from other parts of the world, which experts speculate are being boosted in the short term by the return of the migrant population and their savings, British Pakistani workers are not re-emigrating in large numbers. Rather, academic and think tank contacts suspect the growth is likely due to the relative strength of Pakistan-born workers' employment numbers, the "lag effect" created by an immigrant's tendency to remit even after the onset of economic hardship, growing economic difficulties in Pakistan, and greater use of official transmission channels--a phenomenon that has artificially boosted the official data for the last few years. However, experts forecast that Pakistan-born workers' jobs and income will be more directly affected in the coming months as Britain's overall unemployment increases. Data suggest remittances are the largest source of financial flows from the UK into Pakistan, exceeding both foreign direct investment and development aid, which would make their downturn particularly negative. End Summary.

Characteristics of British Remittances to Pakistan

¶2. (SBU) Robert Ballard, Director of the Center for Applied South Asia Studies, and Massimiliano Cali, research officer at the Overseas Development Institute, spoke with Econoff recently about the impact of the recession on worker remittances to Pakistan. Both contacts have written extensively on the topic of remittances and the British Pakistani community. The UK is the fourth largest source of remittances to Pakistan after the UAE, U.S., and Saudi Arabia. According to data from the State Bank of Pakistan (SBP), approximately eight percent of total remittances to Pakistan came from Britain in fiscal year (FY) 2009, or USD 606 million. (Note: Pakistan's fiscal year is from July 1, 2008 through June 30, 2009. End Note.) However, both experts told Econoff that the actual amount remitted is likely much higher, as the SBP data include only funds sent through official channels. Unofficial channels, such as hawala dars, while becoming less popular, still transmit a large percentage of remittances from the UK.

¶3. (SBU) Ballard told Econoff that those living in Britain of Pakistani origin who remit typically fall into two groups: 1)

newly arrived migrants, and 2) established immigrants between the ages of 40 and 60. The newly arrived migrants typically have immediate family members still in Pakistan and send a significant portion of their earnings home. Once the families have been reunited, remittances tend to drop off, increasing again when the immigrants enter middle-age. This group of Pakistanis uses remittances to support elderly parents who are still in Pakistan and to invest in real estate for their own retirement. Ballard said that while the newly arrived migrants send home a greater proportion of their income, the bulk of remittances comes from the second group. He noted that patterns from previous recessions indicate remittances from the newest immigrants are affected most by an economic downturn.

Remittances Still Growing in 2009...

¶ 14. (SBU) The World Bank in March revised downward its outlook for remittances, predicting remittances to South Asia would decline by between 4.2 percent and 7.3 percent in 2009. However SBP data show that remittances from the UK to Pakistan actually increased during the first six months of the 2009 calendar year. From January through June 2009, UK workers remitted USD 366 million to Pakistan, a 58 percent increase over the same period in 2008, and a 73 percent increase over the same period in 2007. Monthly data showed a similar trend, with workers in Britain remitting USD 68 million to Pakistan in June 2009, an 80 percent increase over June 2008.

¶ 15. (SBU) The upward trend is not unique to Britain. According to SBP data, of the countries that are Pakistan's main remittance sources--the UAE, U.S., and Saudi Arabia--only remittances sent from the U.S. fell in FY 2009. Press reports

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speculate that some of the growth is attributable to migrant workers returning home after losing their jobs and taking their savings with them. However, both Ballard and Cali say that this scenario does not apply to Pakistani workers in the UK. Ballard told Econoff that he believes Pakistani immigrants in the UK are staying despite the recession and that migrants returning to Pakistan are largely workers from the Gulf States, especially Dubai, who lost their jobs in the construction sector and do not have residency rights.

¶ 16. (SBU) While both Ballard and Cali agreed that the increase in remittance flows to Pakistan from the UK in recent years in part reflects a movement of funds from unofficial to official channels, rather than an absolute increase in the total amount remitted, they did not believe that this can fully explain the resilience of remittances in 2008 and 2009.

Cali noted that a main determinant of remittances is employment and the fact that in the UK, Pakistani workers' employment has remained fairly resilient through the spring of 2009 is likely the key factor. However, he added that his research has shown that even in situations where unemployment increases in remittance-sending countries, the result is a decrease in the rate of the growth of remittances, rather than a proportional decrease in remittances.

¶ 17. (SBU) Data from the UK's quarterly Labour Force Survey show that employment of Pakistan and Bangladesh-born workers has held up during the recession. According to the survey, in the 12 months to March 2009, the Pakistan and Bangladesh-born workforce rose by 39,000 workers to reach 231,000. During that same period, the UK-born workforce fell by 451,000 workers to 25.3 million. The growth was not merely a result of immigration, as Pakistan and Bangladesh-born workers also saw their employment rate increase by 3 percent in the 12 months to March, compared to UK-born workers who experienced a 1.3 percent decline. The employment rate for Pakistan and Bangladesh-born workers fell slightly in the first quarter of 2009 compared to the previous quarter, but the decrease was in line with the rest of the working age population.

¶8. (SBU) Cali speculated that the better-than-expected employment data may be reflective of the sectors in which Pakistani expatriates are employed. Both experts noted that in the UK, the Pakistani community has a high percentage of self-employed workers and "corner-shop" businesses in the grocery and retail sectors. Recent British press reports have found that food sellers in the UK, especially cheaper markets, are seeing their sales increase as people dine in more and seek less expensive food options.

...But Experts Wary About Continued Flows

¶9. (SBU) Both Ballard and Cali told Econoff that despite the optimistic data from early 2009, they expect to see remittances from the UK negatively affected in the coming months. While Cali forecasts that the rate of growth of remittances will slow in line with what he has seen happen in Bangladesh, Ballard was less optimistic and predicted an outright decline in remittances. Ballard noted that recessions in the UK labor market have historically always led to reductions in the volume of remittances. He said that the recession of the early 1980s that closed many of the textile mills where the majority of Pakistanis worked had a "devastating" effect on remittances, and while the employment pattern has changed over the last two decades, he does not believe that today's Pakistani workers are immune from the coming employment hardships. The British Government forecasts unemployment will continue to rise into 2010, and Ballard believes the service sector jobs that employ many Pakistanis will be affected, if they haven't been already.

¶10. (SBU) Cali said that his research has shown that workers tend to remit the same proportion of their income over time, so if income falls, then the value of remittances will eventually decline. The employment figures do not account for the lower earnings by those that have negotiated lower wages or fewer hours to keep their jobs or who have wages that are heavily affected by commissions or bonuses. However, there is often a "lag effect," between a decline in income and a decline in remittances. The personal connection between the remitters and receivers means that many workers will continue

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to remit until their savings are nearly depleted, creating a delay between the onset of economic hardship and the actual fall in remittances.

¶11. (SBU) As the economic downturn in Britain is part of a global recession, Ballard also suggested that Pakistani workers may be increasing their remittances to make up for greater economic hardships at home, especially if family members in Pakistan have lost their jobs. However, this up-tick is unsustainable in the medium-term, especially if the remitters themselves face economic hardships. He added that there is a risk that a downturn in remittances could lead to a "nasty reinforcing cycle." As large share of the remittances from the established Pakistani immigrants have been used to invest in real estate in Pakistan, a drop would likely cause property prices to fall. This, in turn, could further drive down the inflow of remittances from those immigrants looking to invest in real estate back home for their retirement. In the UK's previous recessions, he noted, house-building in Pakistan "virtually stopped."

Importance of UK Remittances to Pakistan's Economy

¶12. (SBU) Remittances form the largest share of financial flows into Pakistan from the UK, exceeding both FDI and development aid. Britain is the largest European investor in Pakistan, according to SBP data. However, UK foreign direct investment (FDI) into Pakistan averaged just USD 401 million annually during the last five years, compared to an annual average of USD 461 million in officially reported remittances. Similarly, while the UK has pledged to increase

development assistance to Pakistan to USD 1,096 million (BPS 665 million) over a five-year period from 2009 to 2013, at an annual average of USD 219 million (BPS 133 million), UK aid would still be far less than annual remittances.

¶13. (SBU) In the current economic climate, any decline in remittances would be disproportionately felt as other private financial inflows have declined significantly. SBP figures show total UK investment into Pakistan, including portfolio and FDI, was 45 percent lower in FY 2009 than in FY 2008. Moreover, if British press reports are correct and a large proportion of growth in remittances from the Gulf States are transfers from migrants returning home, inflows from these countries are likely to experience an abrupt downturn in the coming months, making flows from the UK, with its persistent stock of immigrants, that much more important.

The Post-Recession Outlook For Remittances

¶14. (SBU) Both Ballard and Cali predicted that any downturn in remittances will likely reverse once the recession has ended, as the immigrants are staying in Britain and obligations to family members will continue at least in the medium-term. However, Ballard told Econoff that over the long-term, he does not expect the growth in remittances from the UK to Pakistan to continue at the same pace. While in the UK the Pakistani community is growing, he explained that this is mainly due to the birth rate among established immigrants.

Second- and third-generation British Pakistanis will not have the same strong familial obligations or the interest to invest in Pakistan. He added that if the recession prompts Britain to adopt even tighter migration controls, this process is likely to be accelerated. (Comment: The UK has revised its points-based immigration system. Reftel explains in-depth the new system. End Comment)

¶15. (SBU) The experts noted that the British Government's focus has been on moving remittances from unofficial to official channels. Neither could estimate the rough percentage of remittances now in official channels, but Ballard believes that the strong growth in remittances reflected in the official data indicates progress. According to Haroon Sharif, the Department for International Development's lead on finance and growth-related work in Pakistan, DFID will start work on remittances this fall under its ongoing Financial Inclusion Program with the SBP.

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